

FROM: Head, Market Reporting
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SUBJECT: SYNDICATE QUARTERLY AND REINSURANCE
DEBTOR RETURNS (03/Q2)
ATTACHMENTS: RD Instructions
ACTION POINTS: Note changes to instructions
DEADLINE: 21 August 2003

The purpose of this bulletin is to advise agents of:

- (i) an amendment to the SQR return in respect of run-off years of account and Form 3;
- (ii) the reporting of 2000 and prior years of account reinsured into a 2002 or post year of account;
- (iii) the top ten catastrophes to be used in completing Form 6; and
- (iv) the instructions for the Q2 RD return.

Form 3 Run-off years of account

From the Q2 2003 SQR onwards syndicates with a run-off year of account are required to complete a projection of the calendar year, ie as at 31 December 2003, result for that run-off year. The projection is to be reported in Form 3 of the SQR. The information is required to assist in the Lloyd's projection of the market's result as at 31 December 2003. This information must be consistent with the quarterly reports to the Open year and run-off management department. The run-off year projections will not be included within the information that is sent to the Stock Exchange. The information that will be sent to the Stock Exchange from the Q2 2003 SQR will be just the projections for the 2001 and 2002 years of account.

Reporting 2000 and prior years following a third party RITC

There are a number of instances where a 2002 or 2003 year of account has accepted the reinsurance to close of another syndicate. In such a situation, Form 2 of the SQR should only be used to report the pure year development of the reinsuring syndicate. The development of the 2000 and earlier years of account reinsured therein should be reported in Form 5 of the SQR. Where this treatment creates a “jump” in the Form 7 and 8 triangles, a note should be included in the SQR explaining that this is due to the acceptance of the other syndicate’s RITC.

Major catastrophes

To assist managing agents in completing Form 6 of the syndicate quarterly return, the top ten catastrophes during the 2000 to 2003 period (by reference to the size of aggregate incurred loss in any one calendar year) are listed in the table below:

1	01G	Act of terrorism in USA
2	01B	Petrobras 36
3	01F	Attacks on Sri Lankan airports
4	01C	Tropical Storm Allison
5	01J	AZF Petrochemical Plant
6	EFL	Mainland European Storms
7	01L	American Airlines Airbus
8	02E	Hurricane Lili
9	01D	US Storms
10	01R	SAS MD 80 crash

Reinsurance debtor return

The reinsurance debtor return remains as last quarter. The instructions for the Q2 2003 return are attached as Appendix 1. Agents should note the following points:

- (a) cell D now only requires an entry where there is a dispute with the reinsurer over the recoverable (see para 3.2.2), there is no longer a requirement to identify those that are in delinquency proceedings;
- (b) cell E should report only 2003 year of account premium ceded information (see para 3.2.3);
- (c) cell S is included in the return because some agents have cited large amounts due to a reinsurer as being a factor in their decision as to whether or not there is a need to provide for a debt from the same reinsurer. Thus this column should only be used where the credit amount has a bearing on the need for a provision for bad debt on reinsurance recoverables on paid losses and unpaid losses and IBNR (para 3.2.9);
- (d) insert into cell T any collateral (letters of credit, deposits or funds withheld) that secures paid and unpaid loss recoverables from an individual reinsurer. Cell T1 must report the amount of T that relates to Cat 01G (para 3.2.10);
- (e) enter into cell U the amount of any debt that has already been written-off against the reinsurer in respect of any amounts recoverable (para 3.2.11); and
- (f) the two tables (3 and 4) splitting the bad debt provisions across years of account must be completed (para 4.2).

If you have any enquiries about the content of this bulletin please contact Robert Smith on extn 5459 or by e-mail (robert.smith@lloyds.com). This bulletin has been sent to all managing agents.

John Parry

**GUIDANCE NOTES FOR THE COMPLETION OF THE
REINSURANCE DEBTORS AND BAD DEBT PROVISIONS RETURN (RD2)
AT Q2 2003**

1. Filing

- 1.1 The return is to be completed by all syndicates with an open year at the quarter end. It is equivalent to the year-end RD1 form but with reconciliation tables linked to the SQRs. Where the syndicate accepted the RITC of another syndicate at 31 December 2002, the RD2 return at Q2 must include the assumed reinsurance asset.
- 1.2 The quarter end returns are to be filed by the same deadline as the equivalent Syndicate Quarterly Returns.
- 1.3 The RD2 return is to be filed via the MSU website.

2. Overview

- 2.1 The return has two sections. The first requests details about individual reinsurers. The second includes the reconciliation tables, a breakdown of the bad debt figures by year of account and information on any protection the syndicate may have against reinsurer failure.
- 2.2 The general requirements for the completion of the return have not changed since the previous quarter but agents are reminded of the requirements to:
 - (a) identify in cell D any reinsurers where there is a dispute over all or part of the recoverable (there is no longer a requirement to identify those reinsurers in delinquency proceedings (see para 3.2.2);
 - (b) report only 2003 year of account premium ceded information in cell E (see para 3.2.3);
 - (c) note any write-offs in cell U (para 3.2.11); and
 - (d) complete the tables splitting the bad debt provisions across years of account (para 4.2).

3. Individual reinsurer information

General information

- 3.1.1 Data in this section of the return does not need to be broken down by year of account; i.e. amounts should be aggregated by reinsurer rather than being shown on a year of account basis. In addition, data on the return does NOT need to be analysed between US and non-US business.
- 3.1.2 Estimated recoveries on unpaid losses, including IBNR, relates to all years of account. IBNR should be allocated to each reinsurer. For Q2, where reinsurance recoverable information is available on IBNR for the 2003 year of account it should be used but it does not need to be created for this exercise: information on reinsurance recoverables on 2003 YOA outstanding claims must be included in the Q2 RD return.

- 3.1.3 De Minimis Provision: there is an aggregate requirement such that where the recoverable amount exceeds £10,000, a breakdown must be provided. Reinsurance recoverables which aggregate to under £10,000 may be shown as a single line under “de minimis”.
- 3.1.4 Affiliated reinsurers/split: For the purposes of this return, an affiliate is defined as an entity that is within the holding company system or a party that, directly or indirectly, through one or more intermediaries, controls, is controlled by, or is under common control with the syndicate. This split is likely to be more important for syndicates with capacity largely provided by corporate members. An affiliate includes a parent or subsidiary and partnerships, joint ventures, and limited liability companies. The software defaults each reinsurer entry to non-affiliate.
- 3.1.5 Control is defined as per the annual IID return, i.e. the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a person, whether through (a) the ownership of voting securities, (b) by contract other than a commercial contract for goods or non-management services, (c) by common management, or (d) otherwise. Control shall be presumed to exist if an insurer and its affiliates directly or indirectly, own, control, hold the power to vote, or hold proxies representing 10% or more of the voting interests of the entity.
- 3.1.6 The 10% ownership threshold shall be measured at the holding company level. For example, if one member of an affiliated group has a 5% interest in a company and a second member of the group has an 8% interest in the same company, the total interest is 13%, and therefore, each member of the affiliated group shall be presumed to have control. These presumptions can be overcome by predominant evidence to the contrary. However, they shall stand until overcome by such predominant contradictory evidence. An insurer with 10% or more of the voting interest shall evaluate all facts and circumstances relating to the investment and reach a judgement about whether the presumption of control is overcome. The corollary is required to demonstrate control when an insurer owns less than 10% of the voting interest of an investee.

3.2 Information per cell

- 3.2.1 Cells A, B and C – LORS Code, name of reinsurer and country of domicile
To select a reinsurer click on the “reinsurer search” button and then enter the LORS number or the name of the insurer. Where a reinsurer does not have a LORS code, enter "Other1" in the LORS code box and enter the name and country of the reinsurer in the respective cells. If a second reinsurer with an unknown LORS code is to be entered, enter "Other2". If a third reinsurer with an unknown LORS code is to be entered, enter "Other3".

3.2.2 Cell D - Code

The cell defaults to “N” for no issue. Insert, via the drop down box, in this cell, a “W” if a dispute exists with the company which may affect the recoverability of all or part of the balances shown. A dispute exists, for the purposes of this disclosure, when the reinsurer has contested the validity of coverage, or the ceding or assuming insurer has initiated arbitration or otherwise instituted legal actions concerning any amount claimed to be recoverable.

3.2.3 Cell E – Premium ceded

The premium ceded information required in this cell is that in relation to the year of account at its 3, 6, 9 or 12 month stage. No premium ceded data is required in relation to any years of account that are at the 15 months or older stage of development. The data should agree to the premium ceded in the 2003 year of account Form 2 of the SQRs, ie signed and accrued. Please note premium ceded figures should be entered as positive numbers unless they relate to return premiums receivable from reinsurers.

3.2.4 Cell F – This cell is no longer used

3.2.5 Cells G to K & K1 – Reinsurance recoverable before provision for bad debts, by age on gross paid losses

Enter into cells G to J the figures for reinsurance recoverables as at the period end on paid losses, split by the age of the debts as per the cell headings. The figures to be entered are after reinstatement premiums, net of bad debts which have already been written off but gross of bad debt provisions. For the quarter end returns, the total of column K will reconcile to the total column of the “Conv£” line of reinsurance debtors in Form 11 of the SQR. The reconciliation table (Table 1) must be completed. Cell K1 must report the amount of K that relates to Cat 01G.

3.2.6 Cells L & L1- Reinsurance Recoverable on Unpaid Losses and IBNR

This figure should be disclosed after reinstatement premiums and net of bad debts that have already been written off. Cell L1 must report the amount of L that relates to Cat 01G.

3.2.7 Cells M to Q & Q1 – Provision for bad and doubtful debts on paid losses

Enter into cells M to P the figures for provisions for bad debts on reinsurance recoverables as at the period end on paid losses, split by the age of the underlying debts as per the cell headings. Where a “general” provision is made against a specific group of reinsurers, that provision should be split over those reinsurers. However, where a general provision is made against reinsurance debtors overall, then that provision should be included as a separate line called “general provision”. This can be entered using the “select reinsurer” button.

For the quarter end returns the figure in column Q will agree to the total column of the “Conv£” line of “Bad/doubtful reinsurance debt provision in Form 11 of the SQR. The reconciliation table (Table 2) must be completed. Cell Q1 must report the amount of Q that relates to Cat 01G.

3.2.8 Cells R & R1 – Provision for bad and doubtful debts on unpaid losses and IBNR

Enter into cell R the figures for provisions for bad debts on reinsurance recoverables on unpaid losses and IBNR as at the period end. Cell R1 must report the amount of R that relates to Cat 01G.

3.2.9 Cell S – Legal right of off-set (amounts owed to reinsurer)

Enter into cell S any amounts owed to a particular reinsurer which are considered to mitigate a large and/or old amount the reinsurer owes to the syndicate. This column has not been included to capture all amounts owed to reinsurers. It has been included because some agents have cited large amounts due to a reinsurer as being a factor in their decision as to whether or not there is a need to provide for a debt from the same reinsurer. Thus this column should only be used where the credit amount has a bearing on the need for a provision for bad debt on reinsurance recoverables on paid losses and unpaid losses and IBNR.

3.2.10 Cells T & T1 – Collateral on hand to secure recoverable amounts

Insert any collateral (letters of credit, deposits or funds withheld) that secures paid and unpaid loss recoverables from an individual reinsurer. Cell T1 must report the amount of T that relates to Cat 01G.

3.2.11 Cell U – Write-offs

Enter into this cell the amount of any debt that has already been written-off against the reinsurer in respect of any amounts recoverable.

3.2.12 Cell V & W – Cat 01G amounts recovered and written off

Cell V is to be used to record the cumulative amount of Cat 01G reinsurance recoveries received, i.e. it does not include amounts due but not yet received. Cell W is to be used to record the cumulative amount of Cat 01G reinsurance recoveries that have been written off. Both cells are cumulative from 11 September 2001.

4. Reconciliation section

4.1 The first two tables provide reconciliations between the aggregate of the reinsurers' figures in section 1 and data in the SQRs.

4.2 Tables 3 and 4 requires the splits by years of account of the total bad debt provisions on reinsurance recoverables on paid claims (the total of cell Q) and on outstanding and IBNR (the total of cell R). These tables must be completed.

4.3 This section also requests information on whether the syndicate has stop loss covering reinsurance failure. If the syndicate does, then the first box should be ticked and the comment box used to provide information such as the level of stop loss available. The return also asks if the syndicate has any other reinsurance recovery protection: if the answer to this is yes, please tick the box.

5. Comments

A comments box is included in the Syndicate List page. This may be used to provide more detail on specific reinsurers or to make general comments on the return.

6. The electronic form

- 6.1 All figures should be entered as positive and rounded to the nearest £1,000.
- 6.2 All files are to be submitted via the MSU website.
- 6.3 Should you have any queries in relation to these guidance notes or completion of the RD2 please contact Robert Smith (Ext. 5459) (e-mail robert.smith@lloyds.com) Market Reporting.

RD1/2 UPLOAD FILE SPECIFICATION

Column	Column Description	Column Format
LORS Code	LORS code	A valid LORS code
Affiliated	Reinsurer affiliated status	Set to 0 (no) or 1 (yes)
Code D	Code D	Set to W or N
Col E	Premium Ceded	Alphanumeric
Col G	Recoveries before provision by age on gross paid losses <3 mths	Alphanumeric
Col H	Recoveries before provision by age on gross paid losses 3-6 mths	Alphanumeric
Col I	Recoveries before provision by age on gross paid losses 6-12mths	Alphanumeric
Col J	Recoveries before provision by age on gross paid losses >1year	Alphanumeric
Col K1	Cat 01G total	Alphanumeric
Col L	Reinsurance Recoverables on Unpaid Losses / IBNR	Alphanumeric
Col L1	As above for Cat 01G	Alphanumeric
Col M	Provision for bad/doubtful debts on paid losses <3 mths	Alphanumeric
Col N	Provision for bad/doubtful debts on paid losses 3-6 mths	Alphanumeric
Col O	Provision for bad/doubtful debts on paid losses 6-12 mths	Alphanumeric
Col P	Provision for bad/doubtful debts on paid losses >1 yr	Alphanumeric
Col Q1	Cat 01G total	Alphanumeric
Col R	Provision for bad/doubtful debts on unpaid losses / IBNR	Alphanumeric
Col R1	As above for Cat 01G	Alphanumeric
Col S	Amount owed to reinsurer offsetting reinsurance debt	Alphanumeric
Col T	Collateral on hand to secure Recoverable Amounts	Alphanumeric
Col T1	As above for Cat 01G	Alphanumeric
Col U	Write-Offs	Alphanumeric
Col V	Category 01G – recovered	Alphanumeric
Col W	Category 01G – written off	Alphanumeric

Additional validation rules:

1. The file must be comma separated variable (csv) file - each row must contain 24 columns separated by a comma.
2. Col E to Col W must contain an unformatted whole number (i.e. 1300 not £1,300.31) or be left blank
3. There must be a non-zero numeric value in at least one of the columns between Col E and Col W in all rows.
4. There must be no more than one row with the same LORS code.

The file will be rejected if the above format and validation rules are not met.